



TAX ABATEMENTS IN JERSEY CITY

A Vehicle for Growth & Prosperity

Tax Abatement History



- ❑ Statute passed by NJ Legislature in 1961 to facilitate redevelopment of urban areas
- ❑ Aggressively used by Jersey City to redevelop decaying waterfront (1980s)
- ❑ Success of initial P.I.L.O.T. (Newport) led to new demand for waterfront offices and residences (1990s)
- ❑ Legislature renews statute in 1992, citing its success in Jersey City



Abatement Impact: Local Economy



- ▣ More than 200 start-up business have opened their doors in the past decade
- ▣ More than 22,000 full-time jobs have been added in the past decade
- ▣ Wall Street's most prestigious financial firms have relocated operations to Jersey City thanks to 14 million sq. feet of new, tax-abated office space

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Abatement Impact: Quality of Life



- ▣ Success of waterfront development has led to the revitalization of Historic Downtown and rehabilitation of historic properties throughout the city
- ▣ Homeowners have experienced unprecedented property value appreciation, resulting in an enormous increase in personal wealth
- ▣ Jersey City has used abatements to promote smart-growth and sustainable development



Future Abatement Impact



- ▣ Abatements are now driving development throughout the city
 - Canco Lofts (Journal Square)
 - The Beacon (Bergen-Lafayette)
 - Centex Lofts (West Side)
 - Center City Towers (Journal Square)
 - The Foundry Lofts (Bergen-Lafayette)



Understanding “But For”



- ▣ Jersey City abatement policy hinges on the concept that “but for” an abatement incentive many projects would not be built
 - New Jersey property taxes are the highest in the U.S.
 - Most redevelopment sites require intense environmental remediation
 - Most projects must make significant upgrades to city infrastructure
 - Facing similar conditions, Philadelphia study found that 2/3 of recent development in that city would not have occurred if not for tax abatements

- ▣ *Therefore, comparing P.I.L.O.T. payments to theoretical conventional tax payments is a false comparison*
 - The vagaries of the municipal budgeting process create uncertainty in the financial models used by lenders to grant construction loans
 - Because of this, many developers are unable to secure financing if the taxes on their project are not fixed for a given period



Why Abatements Work

- ▣ Stabilize bottom line for rental projects
 - Abatements help developers secure financing in the face of high construction costs, environmental remediation and aging infrastructure by locking in future revenues
- ▣ Stabilize monthly payments for condo buyers
 - Abatements lower early year payments, making the “numbers work” for many buyers
 - Lower monthly payments encourage home ownership and bring new residents to Jersey City
- ▣ Stabilize rents for commercial tenants
 - Abatements lure long-term commercial tenants, bringing jobs for Jersey City residents and new customers for Jersey City small businesses

Fiscal Abatement Advantage



- ▣ Jersey City receives 100% of P.I.L.O.T. payments vs. 45% of conventional taxes
 - Most abated properties contribute more to city revenues than they would through conventional taxes
- ▣ Developers receiving abatements have contributed \$15 million to the city's Affordable Housing Trust Fund since 2003, with another \$8 million pledged
- ▣ Efficient Taxation: Abatements stimulate large scale development that can be fully taxed upon expiration
 - Economists agree it is more prudent to tax fixed assets (existing property) than mobile assets (proposed development)

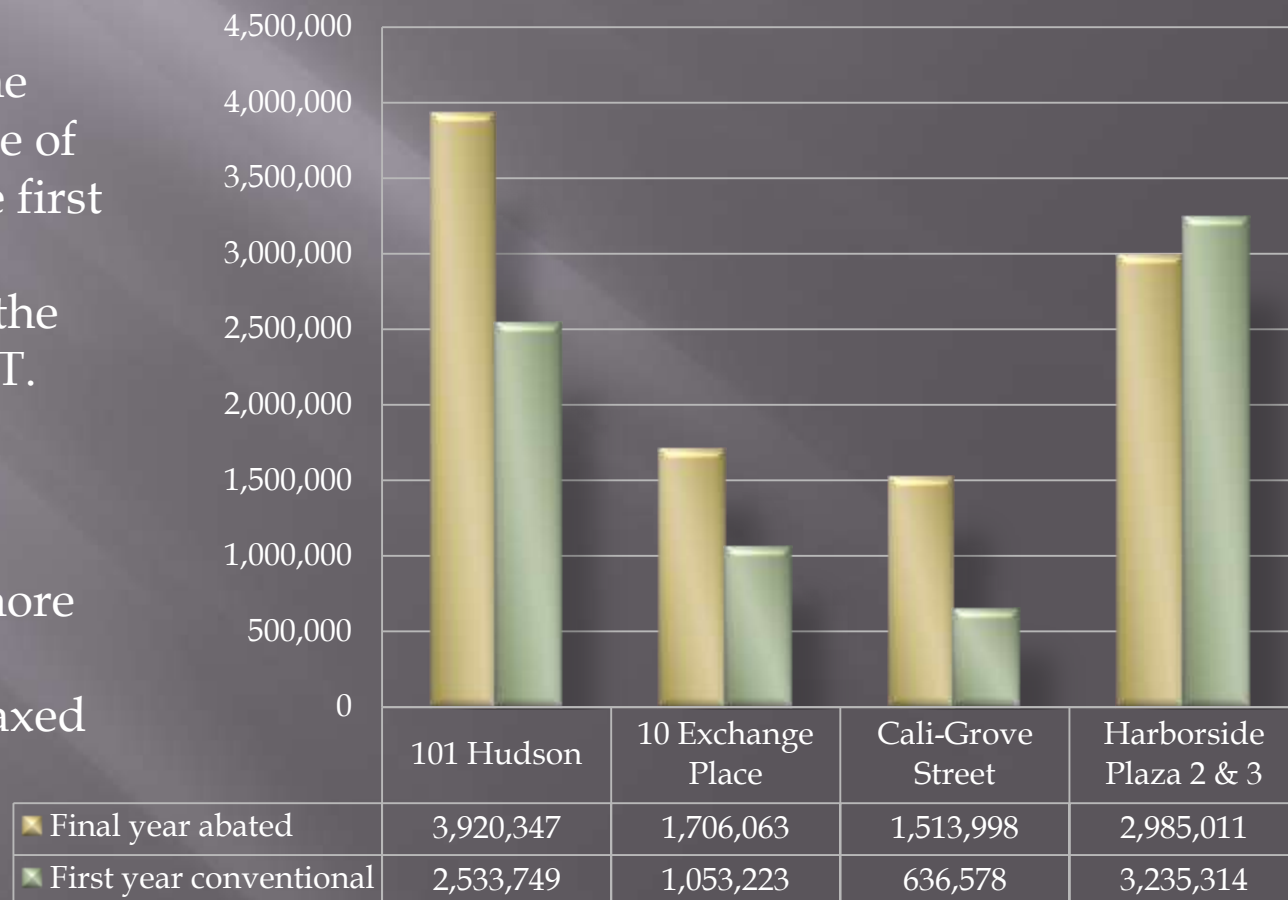
Revenue Analysis



P.I.L.O.T. payments usually generate more revenue for Jersey City than conventional taxation

- An analysis of four formerly abated office buildings found that the city received an average of 31% less revenue in the first year of conventional taxation than it had in the last year of the P.I.L.O.T. agreement
- Only one of the four properties generated more revenue for Jersey City when conventionally taxed

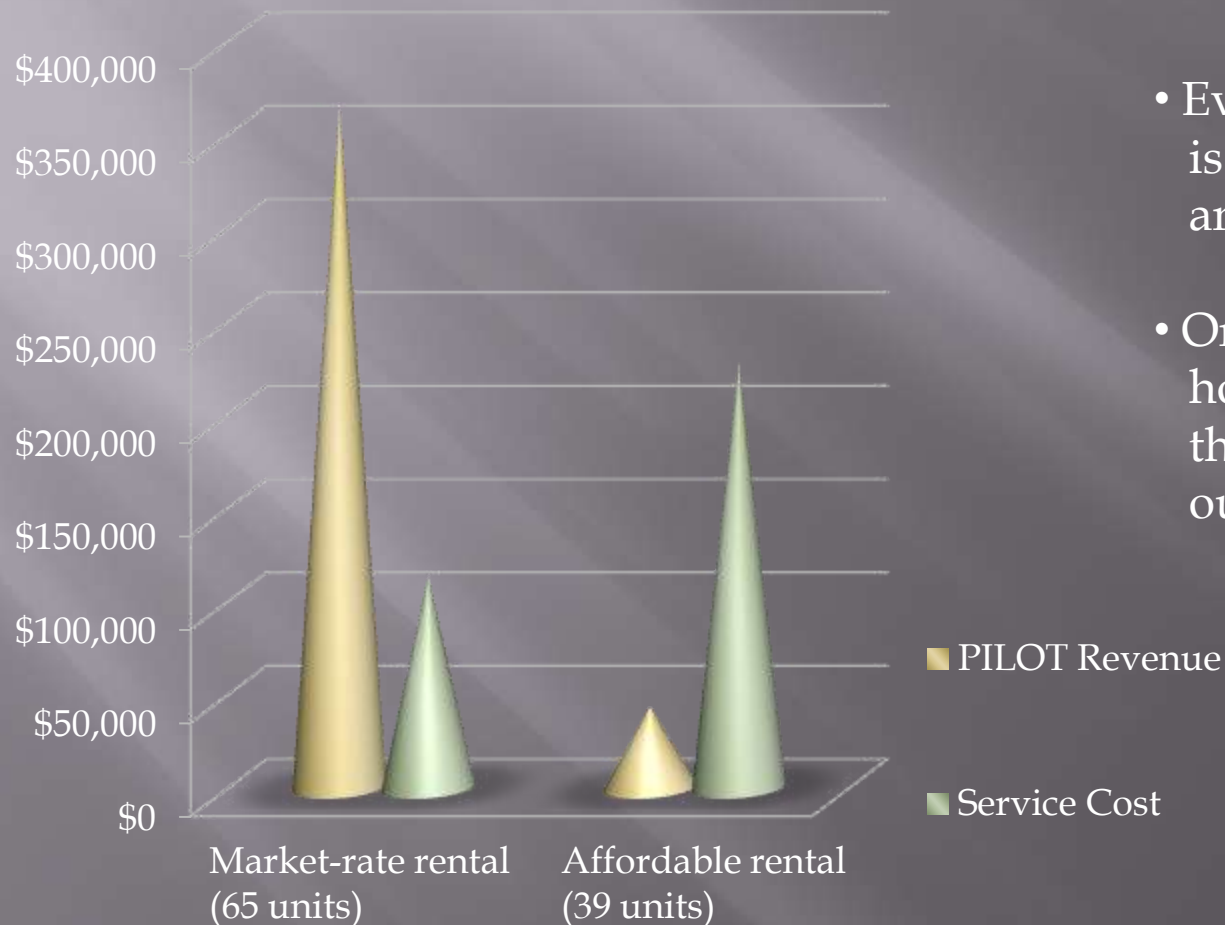
P.I.L.O.T. vs. Conventional



Cost-Benefit Analysis



Most Abatements are Net Gains for Jersey City



- Every abatement application is subject to a cost-benefit analysis prior to approval
- Only in the case of affordable housing developments do the costs of city services outpace P.I.L.O.T. revenues

* Projects chosen at random



Case Study: The Sugar House

- Under a P.I.L.O.T. agreement, The Sugar House in downtown Jersey City paid \$652,216 to the city in 2007
- Under conventional taxation, the Sugar House would have paid a total of \$1,016,044 in taxes that year, of which Jersey City would have received \$466,364
- Jersey City received 40% more revenue through the P.I.L.O.T. than it would have through conventional taxation





Residual Abatement Benefits

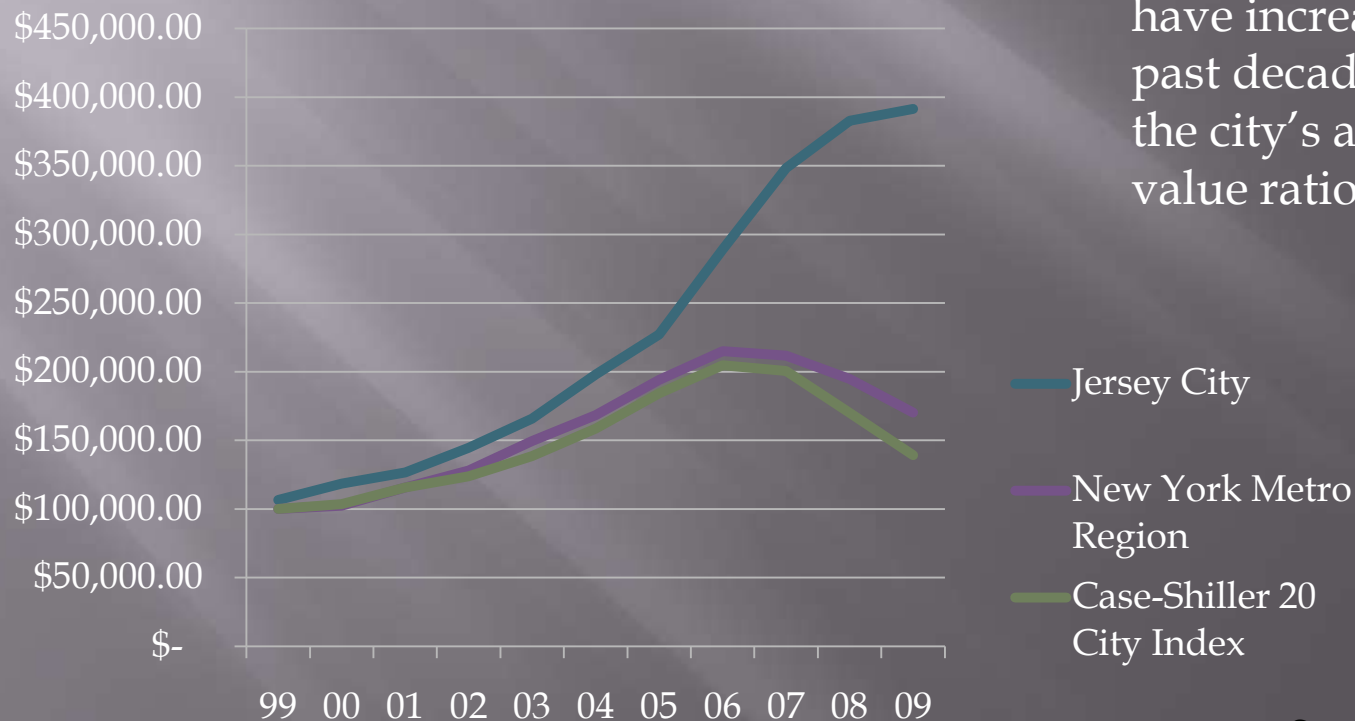
- ▣ Denser development
 - Abatements allow developers to secure financing for larger projects
 - Philadelphia study found that a 10-year abatement led to 20% denser development
 - Dense development represents smart growth and limits environmental impact
- ▣ Wealth creation
 - Rising property values in surrounding neighborhoods have created significant wealth for longtime homeowners, especially low-income residents, seniors and minorities
- ▣ Employment and Economic Opportunity
 - At least 20% of laborers on every abated project are union apprentices from Jersey City hired through a Project Labor Agreement signed by the developer
 - Commercial office construction has brought thousands of high-paying permanent jobs to Jersey City
 - New and revitalized neighborhoods have created entrepreneurial opportunities for retail and service businesses

Creating Wealth



Jersey City Home Values have outpaced nation and region

Market Value of Home
(Base Assessment \$100,000)



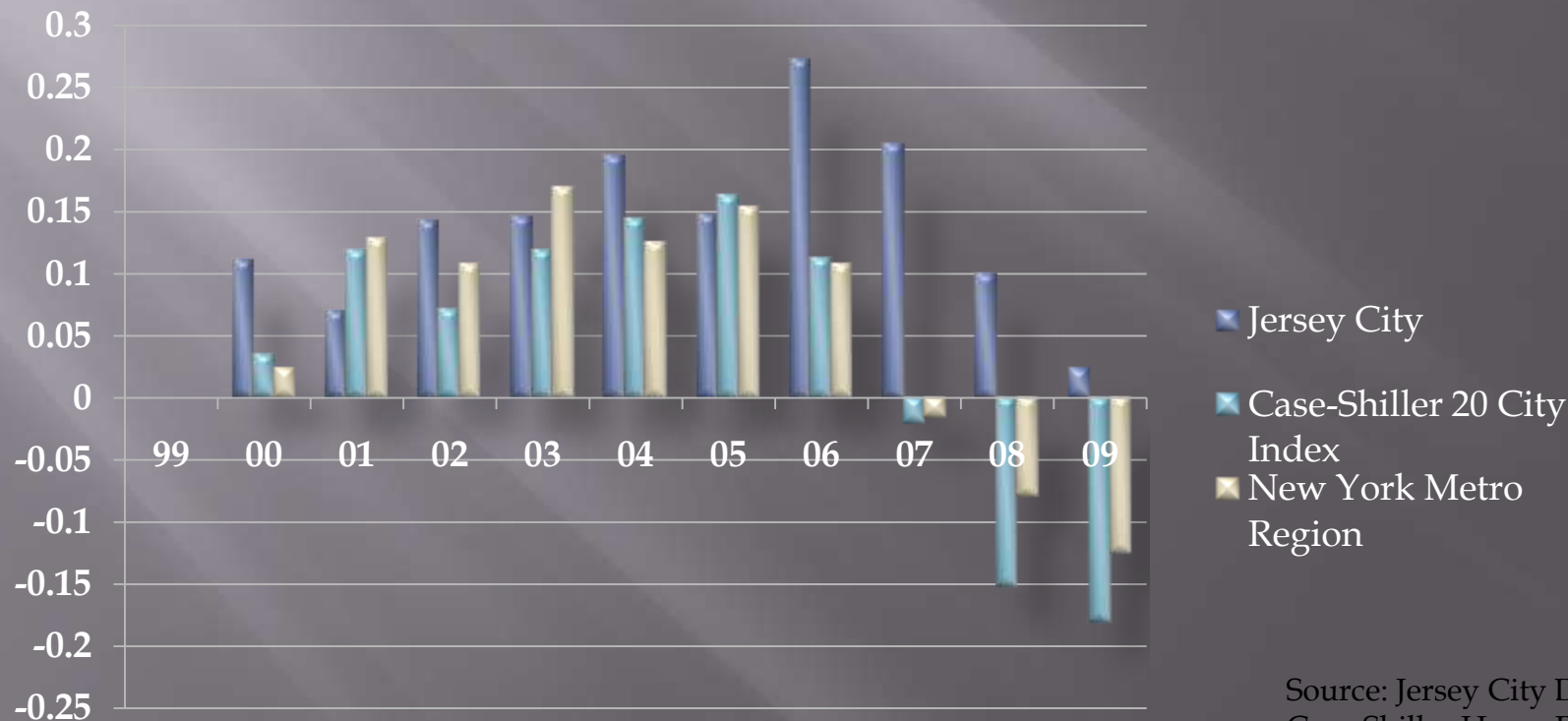
Jersey City home values have increased by 267% in past decade according to the city's assessment to value ratio

Maintaining Value



Jersey City Homes Continue to Appreciate in Recession

Year-to-Year Home Value Appreciation (1999-2009)

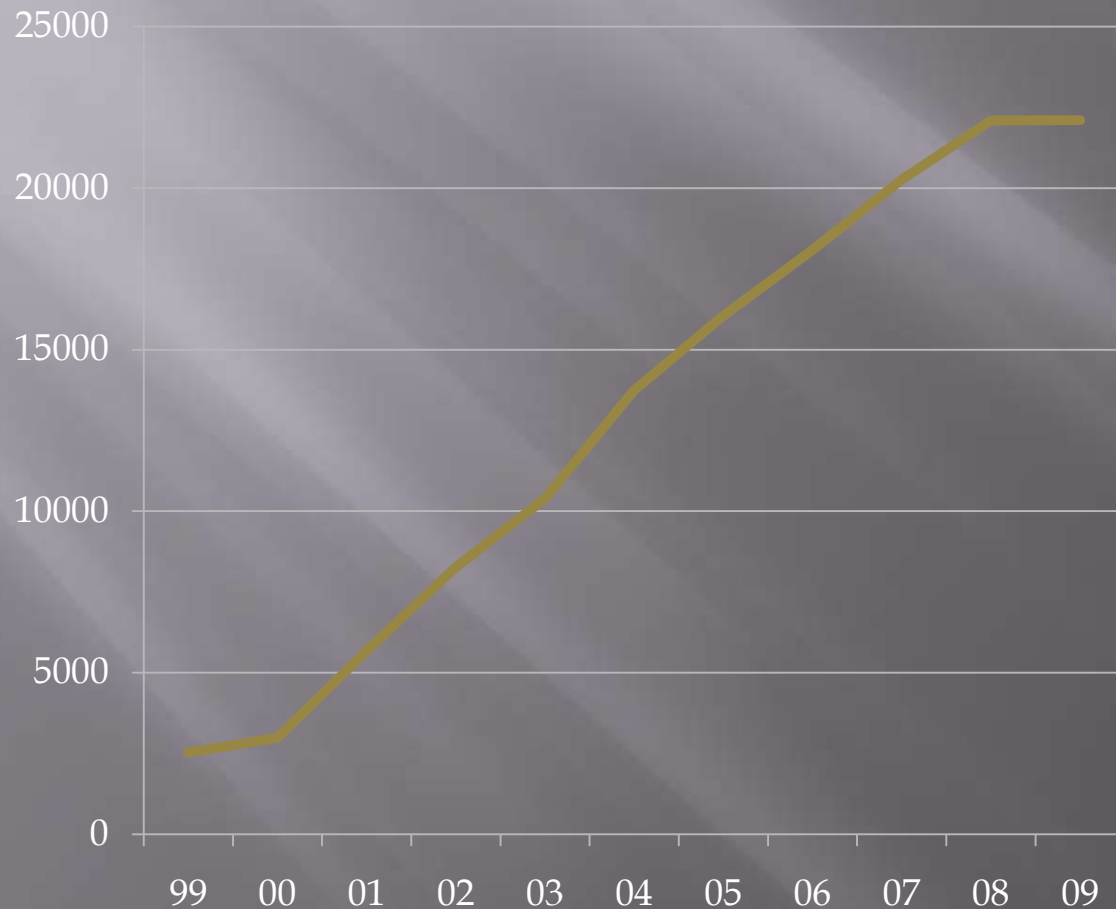


Source: Jersey City Division of Taxation,
Case-Shiller Home Price Index

Creating Jobs



New Full-time Jobs



- Over the past decade, more than 22,100 new, full-time jobs have been added in Jersey City's Urban Enterprise Zones alone, an average of more than 2,000 new jobs each year.
- These jobs have been overwhelmingly added in and around abated properties

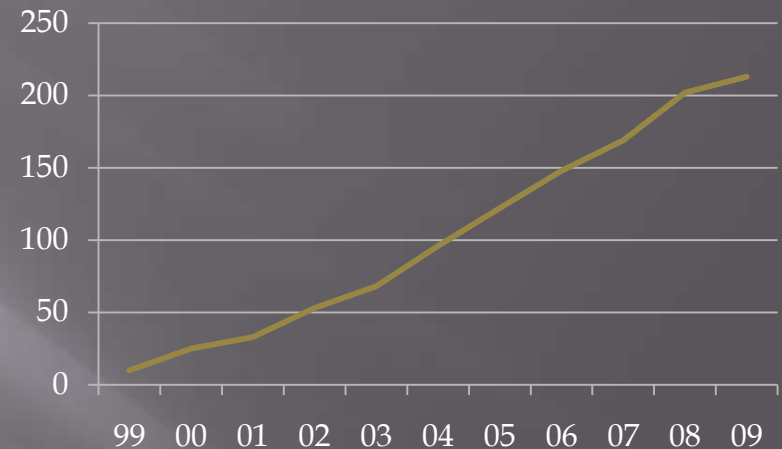
Source: UEZ annual business reports, Jersey City Economic Development Corp.

Unleashing Jersey City's Entrepreneurial Spirit

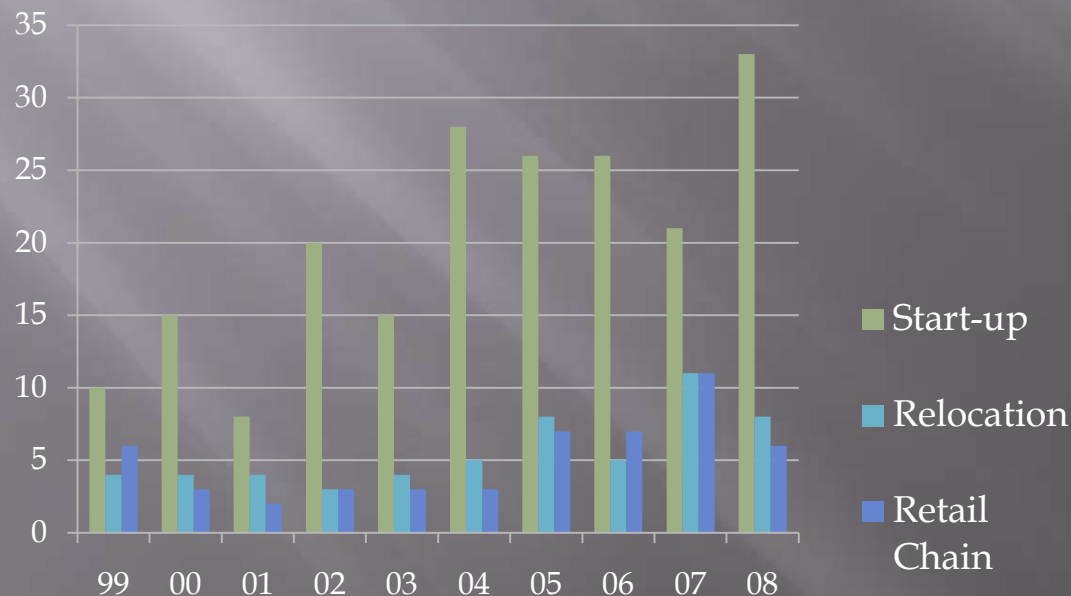


- 213 new businesses have opened in Jersey City over the past decade in the city's Urban Enterprise Zones alone
- For every \$100 spent in a locally-owned business, \$68 remains in the community vs. \$43 for a national chain

New Start-up Businesses



- More local start-ups have opened than corporate relocations and new retail chains combined





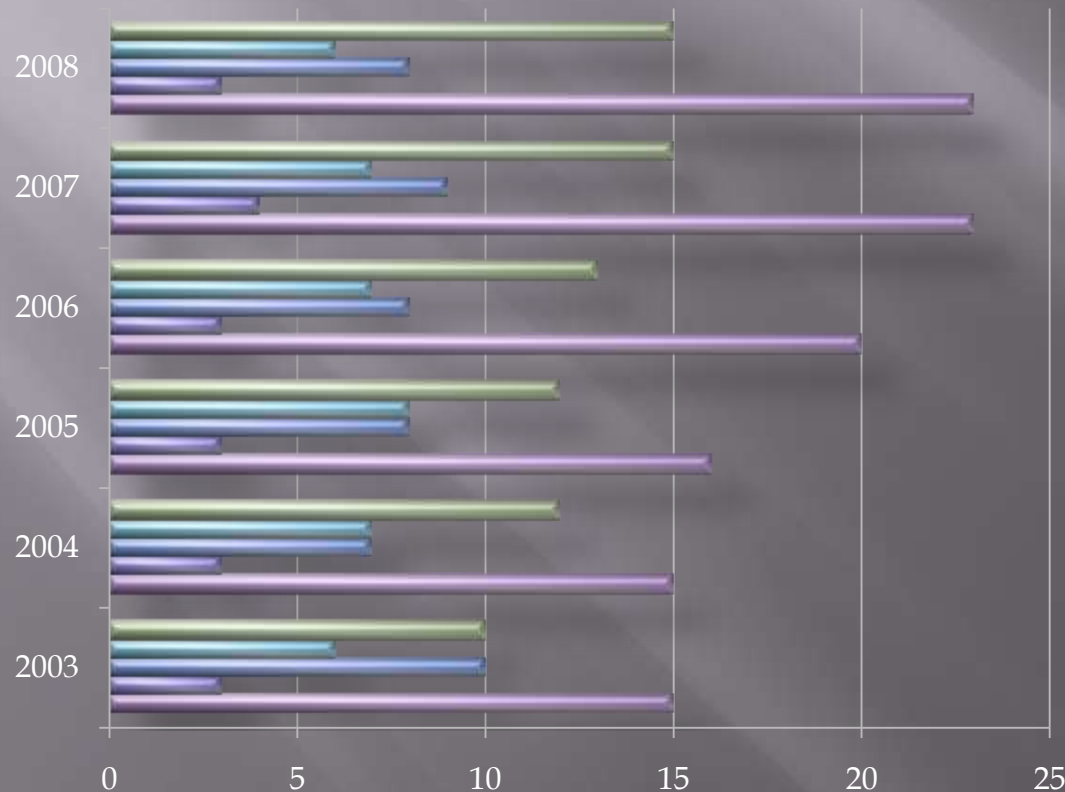
Abatement Myths

- ▣ Just the waterfront
 - 43% of active P.I.L.O.T. agreements are outside Ward E and an even higher percentage are away from the waterfront
- ▣ Just condos
 - Only 23% of active P.I.L.O.T. agreements are for condominium developments
 - 43% of active agreements are for affordable housing developments
- ▣ Just Jersey City
 - Tax abatements are an economic development tool used throughout New Jersey and the United States
 - Not using this tool would place Jersey City at a competitive disadvantage

Abateements Fueling Growth off the Waterfront



Active P.I.L.O.T Agreements by Ward



- P.I.L.O.T. agreements off the Waterfront have increased 20% in the past 5 years
- There are currently 55 active P.I.L.O.T. agreements outside of Downtown and the Waterfront

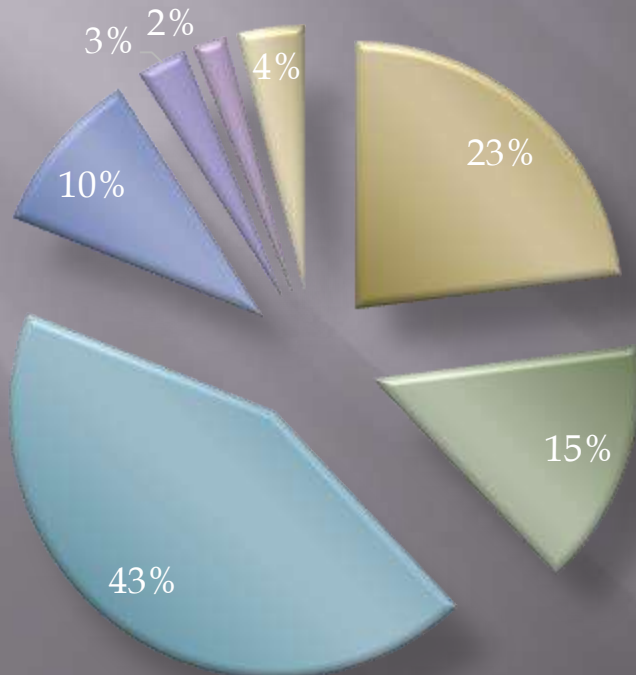
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Abatements Subsidize Affordable Housing



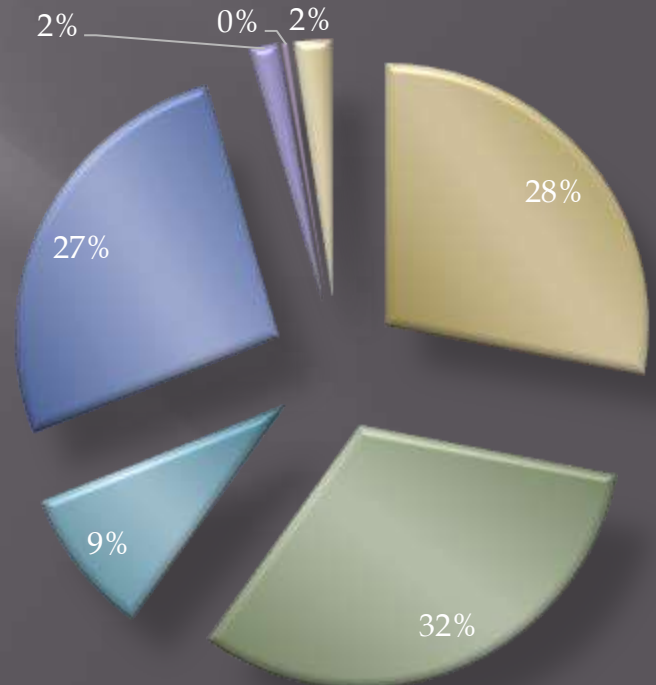
Revenues from market-rate developments defray the service costs of affordable housing

% of Active P.I.L.O.T. Agreements



- Condo
- Market-rate rental
- Affordable rental
- Office / Commercial
- Hotel
- Industrial
- Other

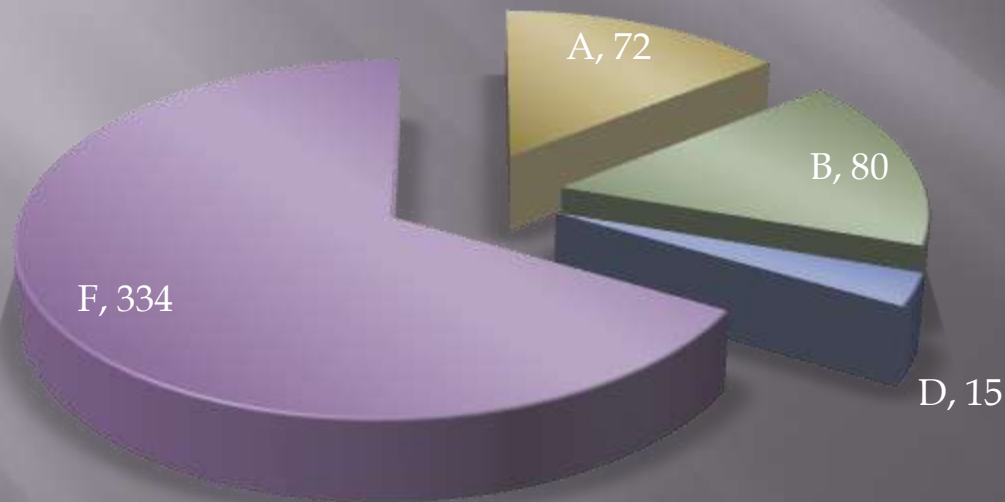
% of P.I.L.O.T. Revenue



Direct Contribution to Affordable Housing



New Affordable Housing Units by Ward



- Since 2003, \$15 million in contractual contributions from tax-abated projects has been directly invested in affordable housing construction
- As a result, 501 new affordable units have been constructed in four city wards
- Affordable developments include 74 apt. units on Duncan Ave., 39 apt. units on MLK Drive, and rehabilitated two-family homes on Pacific and Orient Aves.